

CITY OF HUNTINGTON PARK

Oversight Board of the
City of Huntington Park
Agenda Report

August 13, 2014

Honorable Chair and Members of the Oversight Board to the Successor Agency
Successor Agency of the City of Huntington Park
6550 Miles Avenue
Huntington Park, CA 90255

Dear Members of the Oversight Board:

AUTHORIZATION TO PROCEED WITH LOS ANGELES COUNTY POOL TO REFINANCE 2004 TAX ALLOCATION BONDS AND THE 2007 LEASE REVENUE BONDS

IT IS RECOMMENDED THAT THE OVERSIGHT BOARD:

1. Authorize staff to begin the process of refinancing the Huntington Park Redevelopment Agency Refunding Bonds, Series 2004 (the “2004 Bonds”);
2. Authorize staff to begin the process of repurchasing the Huntington Park Public Financing Authority All Points Lease issued in 2007 (the “2007 Bonds”) and prepare to finance the purchase with the issuance of bonds (the “2014 Lease Revenue Bonds”).
3. Authorize staff to use the Los Angeles County pool and engage Stifel Nicolaus & Company Inc. to serve as Underwriter on the transactions;

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

In June 2004, the Huntington Park Community Development Commission issued the \$55,875,000 Huntington Park Public Finance Authority Refunding Revenue Bonds, Series 2004A (the “2004A Bonds”) to Huntington Park PFA Parity Revenue Bonds, Series A & B, and Huntington Park PFA Subordinated Revenue Bonds, Series C, the proceeds of which were used to acquire the Huntington Park Redevelopment Agency Merged Redevelopment Tax Allocation Refunding Bonds.

In 1997, Huntington Park PFA issued refunding revenue wastewater bonds using the City’s sewer system as collateral, the purpose of which was to pay off debt obligations from the Santa Fe project area. The RDA refunded the 1997 wastewater bonds by issuing the 2007 Bonds in the amount of \$6.5 million of which \$4.6 million is

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outstanding. The 2007 Bonds would be purchased from the sole bond owner and financed with the 2014 Lease Revenue Bonds.

As a result of the dissolution of redevelopment agencies, the Successor Agency to the original agency (the "Successor Agency") now has responsibility for repayment of the 2004 Bonds and the 2007 Bonds. Per AB 1484, the Successor Agency may refund 2004 Bonds and the 2007 Bonds with approval of the Oversight Board and the State Department of Finance ("DOF"), for the purpose of generating debt service savings.

Both financings would be issued through the Los Angeles County Pool, which utilizes Stifel Nicolas as underwriter and Orrick Herrington & Sutcliffe as bond counsel.

Given that the City was recently downgraded to BBB-, the Successor Agency will evaluate the benefit of refunding its outstanding bonds through the County of Los Angeles Tax Allocation Bond Refunding Pool or as a stand-alone refunding transaction using the County Pool's financing team. The Successor Agency will also evaluate the economics of privately placing each transaction versus carrying out public offerings.

FISCAL IMPACT

1. **The 2014 Bonds.** Based on current market conditions, a refunding of the 2004 Bonds will generate net present value savings of \$2.3 million or an average of \$276,000 per year over the next eight years. Based on dissolution laws, savings would be split among taxing entities. The City's share of annual savings would be 7.38% or \$20,400.
2. **The 2014 Lease Revenue Bonds.** Based on current market conditions, a refunding of the 2007 Bonds will generate net present value savings of \$197,893 or approximately \$18,500 per year in savings through 2025. Similarly, based on dissolution laws, savings would be split among taxing entities. The City's share of annual saving is 7.38% or \$1,400.
3. **Administrative Costs.** The City will also have the opportunity to (a) recapture unpaid administrative costs of approximately \$350,000 due from the DOF, (b) through costs of reimbursed for staff time in an amount up to \$50,000, and (c) offset a portion of the City's costs for professional services as a result of provision of financial advisory services by a Los Angeles based SEC and MSRB registered municipal advisor who is currently providing financial consulting services to the City (Mazyck Advisors LLC) (i.e. pay for portion of consultant's fees).

Arbitrage/Rebate Liability. Staff has also initiated a discussion with DOF in order to ensure that the City is able to achieve its desired policy objective of satisfying the arbitrage/rebate liability with the Internal Revenue Service in an orderly and timely

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manner. To the extent possible and your DOF approval, savings from this refunding issue may be used to offset a portion of the City's Arbitrage/Rebate Liability.

LEGAL REQUIREMENTS

The 2014 Bonds. The 2004 Bonds are currently callable on any date after September 1, 2014 with a 2% premium. Based on a preliminary financing schedule, it is anticipated that the 2014 Bonds would close by November, at which time 2004 Bonds would be fully redeemed. Interest rates are currently at historic lows with rates on the refunding ranging from .46% to 2.89%. This refunding would not extend the current maturity date of the bonds.

The 2014 Lease Revenue Bonds. The call date for the 2007 Bonds is 2017. The sole bond owner has indicated their willingness to allow the City to repurchase the Bonds at a 1% premium rather than the stipulated 2% premium thereby making the refinancing more viable.

It is worth noting that the ability to negotiate a lesser premium with a bondholder is a complex and very uncommon undertaking. It is in fact commendable that both parties could reach such an agreement when the margins are consequential -- as they are in the City's case -- enabling the City to take steps towards eliminating critical liabilities.

Interest rates are currently at historic lows with rates on the refunding ranging from .510% to 3.66%. This refunding would not extend the current maturity date of the bonds.

Based on a preliminary financing schedule, it is anticipated that the 2014 Lease Revenue Bonds would close in November, at which time the 2007 All Points Lease would be fully redeemed.

The following table summarizes the savings from both transactions:

Transaction	2004 Bonds Refunding	2014 Lease Revenue Bonds
<i>Final Maturity</i>	2022	2025
<i>Present Value Savings</i>	\$2,300,000	\$197,000
<i>Savings as a % of Refunded Bonds</i>	7.03%	4.23%
<i>Average Annual Savings</i>	276,000	18,700
<i>City's share of PV Savings (7.38%)</i>	\$20,400	\$1,400

The final savings amount for both bond issues will depend on the market interest rates in effect at the time the 2014 Bonds and the 2014 Lease Revenue Bonds are priced,

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which is anticipated to be in November of this year. The source of repayment for both series of bonds will be RTTPF monies.

The Successor Agency will incur various costs associated with the issuance of the refunding bonds including services of the Underwriter, Bond Counsel, Financial Advisor, City Staff, and the Fiscal Tax Consultant. All of the parties involved in the refunding effort are paid on a contingency basis, with the exception of the Fiscal Tax Consultant and the City of Huntington Park. Should interest rates increase substantially prior the bond issuance date or another situation arise that makes the refunding not economically feasible, only the Fiscal Tax Consultant and the City of Huntington Park will be compensated for their services. Should this occur, the fees for these services, estimated to be \$60,000, will be placed on the next ROPS as enforceable obligations.

CONCLUSION AND NEXT STEPS

We recommend that the Oversight Board authorize staff to:

- (1) Move forward with the refinancing of the outstanding 2004 Bonds;
- (2) Finalize negotiations relating to the All Points Lease and begin initiating the refinancing of the same;
- (3) Engage the Los Angeles County staff and underwriter to facilitate both the refinancings of the 2004 Bonds and the All Points Lease;
- (4) Seek the necessary approvals from the Oversight Board at the upcoming August 13, 2014 meeting.

Staff will return to seek all necessary approvals from the Successor Agency as soon as all financing and disclosure documents are finalized. Given the urgency of satisfying the IRS obligation, the Successor Agency will need to close both transactions by November 2014.

Respectfully submitted,

Julio Morales
Interim Executive Director